USA Truck

Third Quarter 2016 Earnings Conference Call

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CORPORATE PARTICIPANTS

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Martin Tewari – *President, Trucking*

Jim Craig – *President, USAT Logistics*

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PRESENTATION

Operator
Good day, and welcome to the USA Truck third Quarter 2016 Earnings Conference Call and Webcast. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star key followed by zero. After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star then one on your telephone keypad. To withdraw your question, please press star and then two. Please note this event is being recorded.

I would now like to turn the conference over to Miss Harriet Fried of LHA. Please go ahead.

Harriet Fried
Good morning, everyone, and welcome to USA Truck's Third Quarter Earnings Conference Call. Joining us this morning from the company are Randy Rogers, President and CEO; Martin Tewari, President, Trucking; Jim Craig, President, USAT Logistics; and Joe Kaiser, Vice President, and Principal Financial Officer.

Before beginning the call, I'd like to remind everyone that this call will contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 as amended and Section 21E of the Securities Exchange Act of 1934 as amended. Forward-looking statements may be identified by the use of terms or phrases such as expects, estimates, anticipates, projects, believes, plans, goals, intends, may, will, should, could, potential, continued, future, strategy, and terms of similar substance. Forward-looking statements are based on management's current beliefs and expectations and are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified, which could cause future events and actual results to differ materially from those set forth and contemplated by the underlying forward-looking statement.

Accordingly, the company's actual results may differ from those set forth in the forward-looking statement. Investors should review and consider factors that may affect future results and other disclosures by the company in its press release, annual reports, and Form 10-K, and other filings with the SEC. The company disclaims any obligation to update or revise any forward-looking statements to reflect actual results or changes and factors affecting the forward-looking information.

Also, on today's conference call, management will be referring to certain non-GAAP financial measures in its analysis of the results that supplement the GAAP financial statement. A reconciliation of these non-GAAP measures to GAAP is provided in the tables at the end of the slide presentation accompanying today's call.

With that introduction, I'd like to turn the call over to Randy. Go ahead, please, Randy.

Randy Rogers
Thank you, Harriet. Good morning, everybody. I'll begin this morning's call by giving you an overview of our consolidated third quarter numbers and then an update on the strategies we're pursuing to strengthen our operations and financial results. After that, Martin and Jim will go through more specifics on our trucking and logistics businesses, and Joe will summarize our balance sheet and liquidity. I'll then come back to update you on our company's strategic action plan through 2017.

Before I begin, I'd like to welcome James Reed, our new CFO, to the company. As you know, James just joined us this week, so he won't have a speaking role on today's call, but he's a great addition to the team. Among other impressive qualities, he has a proven track record and ability to partner with operations to drive operational excellence and deliver consistent results, and you'll be hearing plenty from him on future calls.

With that introduction, let's turn to Slide 3, please. As all of you know, market conditions were tough in the third quarter, but we made some encouraging progress nonetheless mitigating some of the impact of volume lost in the second quarter, in particular related to a large dedicated customer who brought several high volume lanes in-house. In trucking, revenue was stable despite our smaller fleet as we increased utilization and maintained our network discipline. Our operating income improved $0.6 million from the second quarter reaching break-even as our initiatives to lower fixed costs and improve operational efficiencies began to take hold.

On a sequential basis trucking's adjusted OR improved slightly as it improved progressively over the quarter after a very challenging first half, and we narrowed our adjusted net loss by $0.01 per share. Obviously, given the very challenging freight conditions, these improvements aren't as substantial as we would have liked, but we are committed to achieving further improvements in the coming months, and I'll go over the strategies we've put in place to do that in a moment.

But first, I'll turn it over to Martin to provide further details on trucking. Martin.

Martin Tewari
Thanks, Randy. Moving to Slide 4, I'd like to give you an update on the steps we've been taking to increase base revenue per mile, which was one of the key indicators most affected by the volume we lost in the preceding quarter. In the third quarter, on a sequential basis, we increased the all-important metric by $0.013 per mile, which equates to approximately $2 million improvement on an annualized basis. And, with the improved service we're giving USA Truck's customers, we've been getting good traction on our recent bid responses.

We've also made significant progress in reducing our reliance on a spot market and increasing the amount of committed freight we handle. As of the end of the third quarter, spot business represented less than 2% of our total load count. We've also been adding more regional freight into very high density markets which enables us both to better utilize our drivers' hours of service and to achieve a higher rate per mile.

On Slide 5, you'll see a summary of Trucking's results over the past four quarters. There are a lot of numbers here, so I'll call out a few on this quarter's metrics. First on the plus side, it was the fourth consecutive quarter on increased average weekly miles per seated truck.

Second, as you know, reducing collision frequency and overall safety performance is an important goal for us. This quarter's insurance and claims line was up sequentially, but that reflected our most recent actuarial adjustments for prior year occurrences which caused higher developments in this year's claims. Third, our operations and maintenance line for the quarter was down double digits on both a quarter-over-quarter and sequential basis reflecting both our elimination of high cost tractors and overall expense controls.

Finally, with respect to the non-asset component of our fleet, purchased transportation per mile was higher reflecting the increase in our independent contractor fleet. Year-to-date independent contractors now comprise 17% of our fleet as compared to 13% in last year's period.

Moving to Slide 6, I'd like to provide an update on our fleet rationalization and maintenance strategy where we are pursuing many opportunities for substantial cost reduction. In the third quarter, we restructured our road assistance program saving $200,000 and completed our negotiation of national agreements with third-party providers to reduce the cost of parts and repairs. As we fully implement our fleet plan and maintenance efficiency initiatives, we expect to realize annual savings next year in excess of $1.5 million or $0.17 per share.

We've now retired all model 2012 tractors and eliminated 30% of our 2013 tractors as well. As you can see from the box on the left side of your screen which shows maintenance cost per mile by tractor year model, this is going to have a very positive impact on our maintenance cost. As of the end of September, the average age of our fleet was 22 months.

With that, I'll turn the call over to Jim.

Jim Craig
Thank you, Martin. On Slide 7, you'll see a summary information for USA Logistics third quarter results. USAT's net revenue was certainly less than we'd aimed for but decrease was reflecting a very soft and volatile freight environment rather than any issues with customers. Our customer retention has been strong, and our gross margin remains stable at 18.1%.

Some comparison has been made between this year's freight market and what we saw during the low point of the great recession in 2009. There's one significant difference that has made 2016 perhaps more challenging than even 2009 was and that's the incredible unpredictability and the wild swings in demand levels and purchase transportation rates unlike anything I've seen in my 34 years in this business.

After a very weak July, our August numbers delivered some promise of a return to normal and predictable freight levels, and then that was followed up by a very anemic September result. Conversations with customers, carriers and other industry insiders would indicate we're not alone in our surprise or our disappointment.

During the quarter, we completed our migration to our new sales and operating model and saw some of the fruits of that change. As you'll recall, under the new model we have client managers who focus on business development, customer service, and pricing responsibilities while our carrier managers are responsible for carrier selection, negotiation, dispatch, and load management. Demonstrating the potential of that model, three of our larger regional offices achieved market share gains and delivered financial performance results that met expectations for the third quarter.

Our Atlanta office has seen daily load count increase by 30% since February, and we have increased staffing by 20% while they lead the division in productivity metrics. While our goal in 2016 has been to get to six loads per person per day across the network, our Atlanta team regularly exceeds ten loads per person per day.

Our Dallas center exceeded planned for net revenue production for two of the three months and for the third quarter as a whole. And our new regional manager over our new southern California location has energized that team, and their load volumes have nearly doubled in the last two and a half months since he's been in place.

Other good news is that USAT has retained and is now expanding our participation with a major online retailer that has been openly reducing the number of service provider partners they work with. We accomplished that by demonstrating the flexibility of a true 3PL and expanding in service capabilities in direct response to their stated needs. In addition to that important development, we've also secured approval and are now providing additional capacity to supplement the capacity and coverage of our asset fleet with two major retailers and several of our larger consumer products manufacturer clients.

Moving on to Slide 8, we summarized some other important operational initiatives for USAT. We've been progressively ramping our previously announced sales agent initiative to cover the secondary markets and those flyover markets that we're not actively invested in today. We now have nine agents under contract and are on track to have qualified 20 agents in place by the end of the year. While we'll see some modest contribution from the agents in Q4, the real impact will come in 2017 as they gain traction in the market and are fully integrated into the company.

Recognizing the efficiency and productivity that can only come with running greater volume through every office, we've recently converted a couple of our smaller offices to serve strictly as sales locations. Seattle and Buffalo will have their operations execution and their administrative responsibilities provided by Sacramento and Chicago, respectively. By leaving the client manager relationships intact, but consolidating operations and leadership into those proven regional centers, we protect our revenue while substantially reducing direct overhead expenses for 2017.

We have been expanding and will continue investing in our flatbed service offering and added customers across the third quarter while averaging five plus loads per day. We're aggressively expanding what we call our Power Plus offering with a goal of adding 15 to 20 trucks every month. Plus Power is our service that pairs a USA truck 53-foot trailer with a tractor and driver contracted to USAT Logistics but operating under their own validated authority [audio disruption]. Our customers appreciate the flexibility and service we're able to provide and provide a common fleet of trailing equipment in their pools.

I have personally visited over 20 customers in the past several weeks, and every one of them has expressed great interest and support for this unique service solution. Our relatively modest intermodal offering is getting some lift as we re-enter the TLC market with a limited number of our intermodal ready 53-foot trailers. We're already seeing revenue from this initiative and are exploring the potential of introducing USA truck assets back to some of the west coast markets utilizing rail for the line out portion much like many of our major competitors.

In summary, I see plenty of reasons for renewed optimism for the coming 2017 campaign.

And now, I'll turn the call over to Joe Kaiser for a quick financial discussion.

Joe Kaiser
Thank you, Jim. On Slide 9, you will find highlights of our balance sheet and capital expenditures. As of September 30, 2016 our total debt and capital lease obligations net of cash or net debt was $151 million and our stock closed equity was $62.1 million. Net debt to adjusted EBITDA increased year-over-year to 3.7 times compared to 1.1 times as of September 30, 2015.

We ended the quarter with about $51 million available under our credit facility. In 3Q, we acquired almost $23 million of new revenue equipment which was right at the top of what we planned for that period. Our net cash capital expenditures were $25.5 million which brought net cash capital to almost $40 million year-to-date or just under $20 million including the proceeds from capital lease arrangement.

I'll now pass the baton back to Randy to wrap things up.

Randy Rogers
Thanks, Joe. Turning to Slide 10, I'd like to walk you through our strategic plan through 2017. In trucking, the initiatives we're focused on fall into four major buckets. First, of course, is rate uplift which we expect to achieve through a combination of contract renewals and freight mix with existing customers operating within a more balanced and efficient network and the addition of selected regional freight to our network. Approximately 50% of our contracts are coming up for renewal in the first half of 2017, and building on the service improvements we've accomplished and our ability to compete in more favorable head haul

markets, we've seen an encouraging sign that our approach will improve our rate structure and mix while also allowing us to grow profitable business.

In addition, cost control and expense reduction remain a critical focus area. As you've heard, we've seen a solid head start on improving maintenance costs and additional runway for cost improvement as we further leverage our outside spend and reap the benefit of a greater proportion of our revenue equipment under multi-year warrantees. Our goal is to ultimately have 100% of our fleet covered that way.

There's still much headway to make in optimizing our network. As part of our ongoing efforts to improve operational efficiencies, we've reviewed our operational processes in a number of areas employing continuous improvement tools and methodologies, and we're currently piloting an initiative to simplify and streamline our planning and dispatch functions and better utilize our technology. These new processes will enable us to continue enhancing utilization in particular.

Further, as part of our migration to an asset light model, we're working further to increase the number and percentage of independent contractors. Our target for the end of this year is approximately 20% ICs. By the end of next year, we want to bring that up to 25%.

As for USAT Logistics, we'll continue along the lines Jim just outlined growing our sales agent initiative, consolidating our operations into regional super centers, and pushing up the number of loads per person. Our stretch target by the fourth quarter of next year is 7.5 loads per person per day. We'll also continue to expand the Plus P or Plus Power program and grow our TOFC offering in selected markets.

On a company-wide basis, I'd like to call out two initiatives. First, we are continuing our intense focus on achieving fixed cost reductions to align with our fleet size, which we expect to yield in the range of $3 million to $4.5 million in savings in 2017.

Second, enhancing our sales effectiveness, to accomplish that we recently realigned the structure, reporting, and incentives of our sales force. While Martin and Jim will share responsibility for the strategic positioning and direction of our business development efforts, going forward, Jim will be taking the lead for the day-to-day management of the sales team. This will enable us to leverage Jim's successful track record in leading and developing large sales organizations while freeing Martin to focus more on other critical elements of our trucking operations. Getting all 22 sales professionals aligned, collaborating, and effectively selling the entire service portfolio of USA Truck and USAT Logistics will be a positive development for our customers, our associates, and our shareholders. So, I look forward to reporting on that in the future.

So, at this point, operator, we'd like to open the call for questions, and then, again I'll come back for a final wrap up after that.

QUESTIONS AND ANSWERS

Operator
Absolutely. We will now begin the question and answer session. To ask a question, you may press star and then one on your telephone keypad. If you are using a speakerphone, please pick up your handset before pressing the keys. If at any time your question has been addressed and you would like to withdraw your question, please press star and then two.

Our first question comes from Brad Delco of Stephens. Please go ahead.

Brad Delco

Good morning, gentlemen, and welcome, James.

Randy Rogers
Hi, Brad.

Brad Delco
I wanted to maybe make a comment or respond to a comment that was made. Martin, it seemed as if most truckers commented that July saw strength, August things sort of stayed stable, and maybe that that stability continued through September. But, Jim, you kind of mentioned something counter to that that July was weak, August was strong, and September was weak. Can you help us reconcile maybe what specifically each of your segments saw on the quarter?

Martin Tewari
Hi, it's Martin. In July, we saw a softer July on the trucking side and that really impacted us significantly in the quarter. However, we did see a nice uptick in freight volume and stronger rate in through August and September.

Jim Craig
And then, Brad, from the 3PL perspective, July is normally a weaker month relative to the surrounding landscape, June, August. This July was shockingly weak for us, and casually speaking to some of my counterparts and former friends in the industry, former employers in the industry, that wasn't unique to us, I heard a lot about that across the industry. August was very encouraging, as we saw freight demand pick up, and then September while it wasn't July-like, it simply didn't continue the trend of strengthening freight demand that we hoped August would carry over. So, it's a very schizophrenic quarter for USAT Logistics, and again based on my very casual research, we weren't alone in that situation.

Brad Delco
So, what you're saying, the weak July wasn't a function of buy rates being higher. It was a function of demand being lower.

Randy Rogers
Absolutely. And it was pretty much across the board. It wasn't any particular segment or industry. It was across our customer base.

Brad Delco
Okay, well so I guess I'm confused because the seasonal spot rate trends in July seemed to be a lot stronger than seasonal norms which to me pressured most brokers. I'm just trying to figure out why what you saw is different.

Jim Craig
Yes, well, it is a combination again. We expected greater lift from volume in July. We didn't see it and yes, we had margin pressure because, and this I guess I tried to point out in my comments, Brad, is the unpredictability. The market this year for us vacillates from week to week. It's not a matter of one month being good and one month being bad. We'll have two or three days where we're like here we go, now things are changing. And then two days later, it's like, where did all the freight go? Our buy rates change within days significantly. I mean we'll book loads on a Monday in a lane at a given rate, and three days later, we're paying $0.20 a mile more for the same trucks. And it's just like I said --in my long career in this, I've never seen a market this unpredictable.

Brad Delco
Interesting, okay, and then a couple other specific questions, Martin, you made a comment about the

road assistance program and some of the cost savings. When you say you've realized $200,000 out of the $500,000 planned, you're not necessarily running behind schedule there for the second half. You expect to see additional savings in the fourth quarter as well, and then we start run rating at the $1.5 million of incremental savings in '17? Or would the net savings only be $1 million for '17? You get the question?

Martin Tewari
Yes, so there'll be incremental savings for 2017 at that run rate. The $200,000 was basically in the quarter that we saw specifically in the quarter.

Brad Delco
I should be able to take out an additional $300,000 in the fourth quarter and then an additional $1.5 million for next year.

Martin Tewari
Correct.

Brad Delco
Then, I guess, Joe, related to the balance sheet, how comfortable are you with current debt load and did you guys buy any shares back in the quarter?

Joe Kaiser
As you recall, Brad, we did buy back shares in July and the first part of August, then we stopped our 10B51 plan in the second week of August, so we did have some shares repurchased. We haven't purchased since the first week of August.

The current debt levels, we are definitely focused on with our leverage ratio up at 3.7x, we're going to focus on migrating that back down to below 2.5x going forward. That's going to be our focus and that will come from both paying down some debt and strengthening the EBITDA contribution on the trailing 12 months.

Brad Delco
Got you. And then, maybe, Randy, last question for you. The two, call it, additional initiatives, the fixed cost reductions to align, I guess, the company with the size of the fleet because that's been coming down. Where does that $3 million to $4.5 million come from? Is that headcount, is it headcount and facilities? What's the make-up of that?

Randy Rogers
It's going to be a little bit of both or all of that. There will be some—we've identified some opportunities. We've had some attrition in certain positions that we're not going to backfill for good reasons: process-free design and some other things. But, we have a pretty solid plan to downsize some of the, basically, the fixed costs that we have throughout the organization.

These aren't going to be painful cuts, and it's going to be cost reductions that make sense, that originate with process-free designs, and with better ways of doing what we're doing, and some of the pilots that we're initiating in operations, as well as some of the back office functions. I'll give you an example. Payroll outsourcing, for example, non-driver payroll outsourcing provides some opportunities and some other things.

Martin Tewari
Some of those are just vendor negotiations as well with a little bit here and a little bit there to reduce our

overall fixed cost.

Brad Delco
I guess that would include the Road Assistance Program, or is that a—I'm trying to figure out if I'm going to put—layer in all these expense savings, am I double counting things or are all these unique to each of the specific areas you talked about ?

Martin Tewari
That's separate from the Road Assist.

Randy Rogers
These are different initiatives. There's very little overlap.

Brad Delco
Okay. Alright, guys. Thanks for the time, I'll get back in queue.

Operator
Once again, if you have a question please press star and then one on your telephone keypad, and bear in mind, if you're using a speakerphone, please pick up your handset before pressing the keys. Again, that key combination is star and then one.

Our next question comes from Jason Seidl of Cowen. Please go ahead.

Jason Seidl
Thanks, operator. Hey, guys. A couple quick ones for me. I think you mentioned you're getting good traction in the bid market. I was wondering if you can give us a little more meat behind that. Sort of what sort of rates are you getting on the bid side?

Martin Tewari
Jason, it's early in sort of the bid cycle but we've been very pleased to see the responses we've been getting on improved service with our customers. So, I would say on average, as we look at the bids, we're probably seeing about three-ish, right in that neighborhood, percent.

Jason Seidl
That's very encouraging. And, in terms of what percent of your business have you been able to re-price at that and what percent will you be re-pricing between now and the end of the year?

Martin Tewari
Now and the end of the year won't be significant, it will be a smaller amount through the end of the year. Really, a lot of what we hit is within the fourth quarter. So, we're pricing it now for implementation in the first and second quarter of 2017, so we'll see probably somewhere around, I would say by the end of the second quarter 2017, probably 50%, 60% of our business renegotiated.

Jason Seidl
Okay. That's great color. You also, you mentioned that you lost, it sounded like a fairly sizeable dedicated contract in terms of them just pulling it more in-house. Do you know why it was pulled in-house? It's interesting because that seems to be counter to what I'm hearing from a lot of other dedicated providers. It seems like there's more people putting dedicated out to bid.

Randy Rogers
If I can just chime in, that was a second quarter issue for us. And, obviously, if you look at our rate per

mile, that's—and there were a couple other customers in there as well. And, this was not directed at us, it was directed at a number of other carriers.

So, the decrease we saw on our rate per mile had a pretty substantial impact and we're working to bring that up, and there are a number of initiatives to increase that. And, I think one of the things that we're seeing a fair amount of success with is putting—is winning some, what we call regional freight to fill some of the gaps that we have with our length of haul and the hours of service that we have with our drivers, and very high-density lanes that we've been building up over the last six months to a year, gives us some unique opportunities to take advantage of those hours of service, and at the same time generate some higher rate per mile business and see an uptick in that rate.

So, we didn't have—this quarter, we did not have any significant customer loss or anything like that.

Jason Seidl
Okay. Fair enough. If I can switch over to the sales side, you mentioned you've changed the compensation structure a bit, could you talk about that and how it sort of, I think you said, it more aligns yourselves to with some of your peers? Give us some details behind that and exactly what are the savings you think will come out of that.

Jim Craig
It's not a savings initiative, it's a revenue growth, top line revenue initiative first of all. What we've done, we have 22 full-time sales professionals in the organization. Most of those, prior, were aligned with the trucking side of the business, they were encouraged to sell both business units, but in reality they were measured on their ability to enhance truck revenue, reduce back-haul miles, all those good things.

So, what we've done because, clearly, capacity and revenue potential for trucking is finite based on our fleet size, we're getting the entire team selling the entire portfolio. And so, on the compensation model they will have a variable comp opportunity for selling USAT Logistics an offering where they can go out and pursue big blocks of revenue with major customers and really drive that top line revenue.

And then, to make sure they're doing the right things, on behalf of Martin and his team, they will have, I guess, qualifiers, independent quarterly goals to enhance the trucking revenues, fleet efficiency, layover, things of that nature. So, it's really kind of a two-pronged attack on their variable comp where they can fund their variable comp pool by selling Logistics and capture that money by meeting Martin's requirements. Does that make sense?

Jason Seidl
Yes. That does. I guess, last but not least, could you talk a little bit about how you guys depreciate tractors? Are there any adjustments that might be made between now and the end of the year? Are you guys comfortable with all that?

Joe Kaiser
Yes, Jason, this is Joe. That is something that we're looking at currently. We're looking at the used truck market right now for October and November, and we'll be addressing that probably in Q1.

Jason Seidl
And, currently, what are you doing for residual values, what percent?

Joe Kaiser
Right now we're currently at a—on our tractors we're at a five-year life and a 30% salvage value.

Jason Seidl
Five-year/30%. Okay. Perfect. Gentlemen, that's all I have and I appreciate the time as always.

Randy Rogers
Thanks, Jason.

Operator
Our next question comes from John Engstrom of Stifel. Please go ahead.

John Engstrom
Good morning, everyone. Thank you, all, very much for your time. I was hoping to talk a little bit about some of the growth prospects you guys are looking at and trying to push. I know you guys had mentioned that you hired in eight agents for the logistics operation. I was wondering if you could help expand on that a little bit, both in terms of the primary metric you'd use as both transaction per head on average, but then also if you could maybe talk a little bit about the ramp-up period for new hires and things of that sort. That [audio disruption] appreciate it.

Jim Craig
Sure. New hires as in agent additions or new hires as in employees?

John Engstrom
The agent additions, specifically; you mentioned that the count was eight.

Jim Craig
It's actually nine, I misspoke there for a second. But, it's really a broad spectrum. We're being very discerning, we're not going out and signing everybody up who may possibly want to be an agent, because the brand in the marketplace has to be well-represented, and we want people that are actually going to have an impact.

So, we're being fairly discerning. So far most of our new agents are individuals with some industry experience so they can hit the ground running fairly quickly. Because we are focused on secondary markets, we're looking specifically in those places where we don't already have strong representation for both USA Truck companies.

But, the ramp-up varies greatly by the individuals that we contract with. Some have hit the ground and are already generating revenue daily and those are, again, individuals—some of these agents are small teams of people. Our sweet spot and where we're getting some traction now is really very small brokers that are finding the current market a bit untenable for themselves and are basically looking for a financial partner to give them a more stable foundation so they can continue serving their customers.

So, as we sign on those kinds of agents we'll see some real significant revenue contribution. And, like I said in my comments, we're seeing some revenue right now, we'll see some revenue throughout the fourth quarter, but we'll really expect the impact to be in 2017 and agent revenue and contribution is a significant part of our '17 growth plan.

John Engstrom
That's very helpful, thank you for that. And, so, to put things in context, we're talking about nine agent hires. What's the existing headcount on the team?

Jim Craig
The teams—USAT Logistics has 111 employees currently, 20 of those are more administrative positions,

support roles, the rest are either client-facing or carrier-facing out in the field. So, nine agents is 10% of our total headcount. For an agent to be viable and for somebody to make a living being an agent, they're going to have to generate more than $1 million a year in top line revenue to make it an ongoing income for them as an individual. So, that's a good raw number that we look at when we're hoping to have 20 agents contracted by January 1st and what their potential impact might be for next year.

John Engstrom
I'm sorry, could you repeat that figure?

Jim Craig
Well, just based on the math, if somebody's going to work as an agent they're going to have to generate at least $1 million in top line revenue annually to make a viable income for themselves, and, frankly, that's not a lucrative income. But, if they're going to do this full-time, if they're not generating $1 million in top line revenue, their commissions that flow to them, ultimately, will not be sustainable.

And, frankly, if they can't have that kind of impact for me in the marketplace, over time, I don't want them out there carrying my business card representing—if they're going to bring me a few loads a month as some sort of stringer, I don't want to dilute my brand out in the marketplace and we're not going to allow that. If you're not having an impact, it will be a short-lived association.

John Engstrom
Right, and it's probably also not worth increasing your spin of control and consuming your time and utilization.

Jim Craig
Absolutely. We're being very discerning.

John Engstrom
Please go ahead, I didn't mean to cut you off.

Jim Craig
No, not at all. I'm done.

John Engstrom
So, the other thing I wanted to bring up, which I see on a slide which is TOFC trailer and flatcar, but I'm not really sure we touched on it too much. We talked about selective lane growth and limited lanes, and I'm also thinking to NFC really moving away from Triple Crown and a roadrailer-type business. I'm wondering if there's some market opportunity there for a trailer-on-flatcar to substitute in those lanes that had previously been on Triple Crown's roadrailers and if you guys are addressing those markets.

Jim Craig
We're really, on a TOFC product, we're really following the market and our customer's lead on where they have an interest in this product. TOFC is a fairly narrow niche because of the economies, the trailer-on-flatcar versus a double-stack container, but there are certain lanes where we can compete on price, have a little bit better transit, and load capacity, of course, is a little bit higher. So, we have found customers that find TOFC very attractive, and as Triple Crown and others exit and we find customers that are still in need of those services, and we can fill that gap, we're certainly looking forward to having those conversations.

John Engstrom
Yes, certainly, very well. We think that there's clearly going to be a challenging middle-ground to be

found when roadrailers go away and everything seems to be pushed towards double-stack for the short-haul lanes that may be a good touch for the rails, but also require some trucking services.

So, thank you very much for your commentary. That's all the questions I have, I appreciate it.

Operator
Our next question is a follow-up from Brad Delco of Stephens. Please go ahead.

Brad Delco
Thanks, guys, for taking the follow-up. Randy, going back to the comments that Jim and Martin shared about the cadence of trends, July, August, September; can you provide us any high-level commentary on July we lost a lot of money, we broke even in August, and we made money in September, or something to the cadence of profitability in the quarter?

Randy Rogers
I'm not going to really get into the specifics of each month, but the trend was very—if you talk about bottoming out, July certainly was not a good—that's probably where I would point to where we had—where we bottomed out, August did improve. If you look at, for example, our operating ratio on the trucking side in September, we were below 100.

And there's always some noise in certain things, but it was very promising. It's an example of it can be done, we're seeing progress. We need, clearly, again, to work on the rate side of our equation, and what we're doing with the network in filling the gaps, and our approach to increasing the regional freight which tends to be higher-rated freight and an opportunity for us to leverage driver hours at the same time, and not sacrificing utility or utilization which is our primary concern when you do that. I think we have a pretty well-structured plan.

Obviously, the reminder of the year, you have some holidays in there and everything else, but I think the trends are encouraging and September was a better month for us.

Brad Delco
Okay. Is there any way—one thing I noticed and I think the Street noticed, there was a very wide disparity in expectations for you guys for third quarter, just in terms of consensus expectations. Is there any way that you could provide some idea for fourth quarter do you expect to be profitable or not? Anything that you can give us directionally that would help narrow these expectations?

Randy Rogers
It's extremely difficult for us to do that because I think it gets to the point that Jim was saying earlier. In his side of the business, we had one day, we had the best day of, I think, the entire year, in one day as far as load count, and net revenue, and the following day was off. So, it's been very, very unpredictable. It's hard to put a number out there and really, truly, at this point, identify the trends.

So, that gets back to us, we're focusing largely on the cost side of the equation, those things we can control, our maintenance. We've been very encouraged with what we've done on the maintenance side, we still have some opportunity in maintenance, and our cost per mile is headed in the absolutely right direction. And, we talked a lot on this call about business development and our sales approach, and I think that's key to selling business where we need it and pulling it all together.

So, we're smack dab in the middle of that and I think we're encouraged by what we're seeing. But, again, that's something that's going to spill over into next year and we're just going to have to keep plugging and, hopefully, that will pull us through some of the more difficult times that appear to be ahead in the first quarter.

Brad Delco
Okay. So, I should read that that it's effectively a coin toss on whether or not you can make money in the fourth quarter just because of the uncertainty?

Randy Rogers
It's uncertain for sure, yes. It's uncertain.

Brad Delco
Alright. That's it for me. Thanks, guys.

Operator
This concludes our question and answer session. I would now like to turn the conference back over to Mr. Randy Rogers for any closing remarks.

CONCLUSION

Randy Rogers
Okay. Thanks, everybody, for participating on the call this month, this quarter. I'd just like to sum up by saying that we're not satisfied, obviously, with where we are from a profitability standpoint, but we do have an intense focus on managing costs, as I just mentioned.

Service is really, actually, service is a bright spot for us. Our service, I'm proud with the actions that we've taken there. I was out on customer calls throughout the month, on many customer calls. That was really a highlight. I think we're seeing our customers starting to reward us with additional business. They recognize that we're committed to maintaining and living up to our commitments, and those commitments are in lanes that where we want to be, we have a much more balanced and efficient network, and we're committed to driving further improvements there as well.

So, we think we're on the right rack with the initiatives in place and we've seen that progress, especially, again, in the maintenance and fixed costs side, and we're going to continue to work through that for the remainder of the year into next year.

Just finally, we will be next week at the Stephens conference, and you'll see that advisory come out today. I know I've seen a few of you listed as participants for one-on-ones, and I'm looking forward to talking more to those of you that we'll see next week. So, thanks, again, for being on the call.

Operator
The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.